

A nonprofit organization formed by a medical staff of an exempt hospital to carry on a charitable program of benefit to the hospital qualifies for exemption under section 501(c)(3) of the Code.

Advice has been requested whether a nonprofit organization organized and operated in the manner described below qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was formed by the active medical staff of a hospital exempt from Federal income tax under section 501(c)(3) of the Code. The purpose of the organization is to carry on a charitable program of benefit to the hospital. In furtherance of this purpose the organization provides scholarships and similar financial assistance to interns and residents during the course of their medical training, purchases new equipment for the hospital, and establishes various research grants.

The active medical staff consists of individuals engaged in the private practice of medicine who agree to undertake certain duties in connection with the hospital's operation. One of these duties is to provide medical services to patients admitted to the hospital without a personal physician. Before the enactment of Medicare and Medicaid legislation, many of these services were usually rendered without compensation. However, under the provisions of this legislation, most of these patients are now eligible for payments for medical services furnished to them. Instead of collecting the fees for the services rendered to these patients, the staff physicians, who are the members of the organization, assign to the organization their rights to receive these fees. The organization collects the fees and uses the proceeds to carry on its charitable program. The physicians render the medical services referred to as part of their duties as active staff members of the hospital. Such services are, therefore, not part of the organization's activities.

No part of the organization's funds is used for the private benefit of the members.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(ii) of the Income Tax Regulations provides that an organization is not organized or operated exclusively for exempt purposes unless it serves a public rather than a private interest.

Under the circumstances set forth above, the collection of the fees is merely the conversion of assigned assets to cash. The organization is carrying on a charitable program by providing

funds for medical education, improvement of hospital facilities, and research. Since all funds are used for these purposes, the organization serves a public interest, rather than the private interest of any of the members. Accordingly, the organization is exempt from Federal income tax under section 501(c)(3) of the Code.

For a discussion of the tax treatment of the fees collected with respect to the physicians, see Rev. Rul. 58-220, C.B. 1958-1, 26, Rev. Rul. 66-377, C.B. 1966-2, 21, Rev. Rul. 69-274, C.B. 1969-1, 36, and Rev. Rul. 69-275, C.B. 1969-1, 36.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1023, Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.